

AR25

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General Dynamics Annual Report 1968



Operating Units Aerospace

Canadair Limited, Montreal, Quebec, Canada
Convair Division, San Diego, California
Fort Worth Division, Fort Worth, Texas
Pomona Division, Pomona, California

Marine

Electric Boat Division, Groton, Connecticut
Quincy Division, Quincy, Massachusetts

Electronics

Electronics Division, Rochester, New York
Stromberg-Carlson Corporation, Rochester, New York
Stromberg DatagraphiX, Inc., San Diego, California

Resources

Freeman Coal Mining Corporation, Chicago, Illinois
Marblehead Lime Company, Chicago, Illinois
Material Service Division, Chicago, Illinois
The United Electric Coal Companies, Chicago, Illinois

Results in Brief (Dollars in thousands, except per share amounts)**1968****1967**

Net Sales	\$2,662,238	\$2,253,336
Income before Extraordinary Items	29,756	51,289
Extraordinary Items	8,927	5,737
Net Income	38,683	57,026
Per Common Share		
Income before Extraordinary Items	2.83	4.91
Extraordinary Items	.85	.55
Net Income	3.68	5.46
Share Owners' Equity	31.94	32.21
Expenditures for Property, Plant and Equipment	60,134	96,951
Backlog of Funded Orders at Year End	2,089,000	2,372,000
Number of Employees	101,400	103,200

To the Share Owners:

Sales in 1968 increased by more than \$400 million but there was a decline in net income.

Consolidated sales of General Dynamics Corporation and subsidiaries for the year ended December 31, 1968, were \$2,662,238,000. This compares with sales in the preceding year of \$2,253,336,000. The largest gains were in our Aerospace and Electronics groups.

Deliveries to Government services and agencies represented approximately 83 percent of total sales in 1968. Sales to industrial and commercial customers, accounting for approximately 17 percent of total sales, included telecommunication and data handling equipment, coal, lime, building materials, machinery and compressed gases.

Aerospace group sales represented approximately 70 percent of total sales, Marine group sales about 10 percent, Electronics group 12 percent and Resources group 8 percent. Sales for Liquid Carbonic are included in the Resources group total.

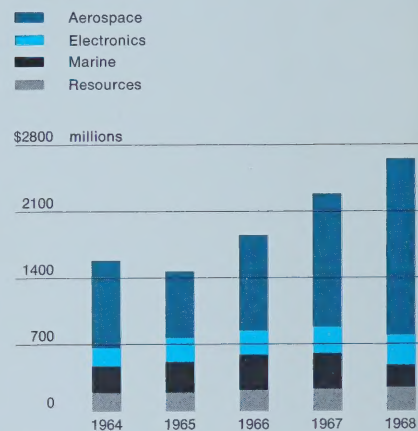
Funded backlog of orders at the end of 1968 was \$2,089,000,000, compared to \$2,372,000,000 at the end of 1967. Unfunded backlog, which includes orders under negotiation or unfunded on multiyear production contracts, was \$1,892,000,000 at the end of 1968 and \$1,610,000,000 at the end of 1967.

Consolidated net income for the year ended December 31, 1968, was \$38,683,000, equal to \$3.68 per common share. Of this total, \$29,756,000 represented net income from operations and \$8,927,000 represented nonrecurring gains. Net income in 1967 was \$57,026,000, equivalent to \$5.46 per common share, and included \$5,737,000 in nonrecurring gains.

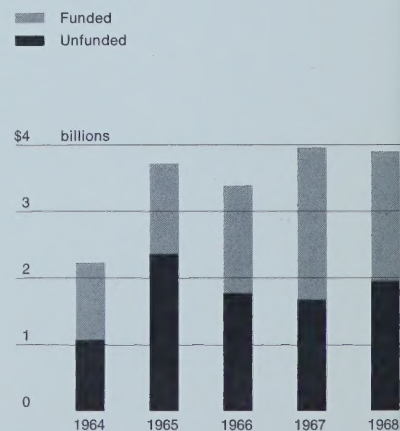
The decrease in net income in 1968 was primarily due to excess costs in our marine operations that resulted in writeoffs on surface ships and submarines that are scheduled to be delivered in 1969, 1970 and 1971. The losses on these long-term contracts were recognized in 1968 in accordance with our policy of writing off such losses as soon as they can be identified.

The Air Force's F-111A demonstrated its unique capability in its first combat

Sales by Group



Backlog of Orders



experience when the Tactical Air Command deployed a contingent of aircraft to Southeast Asia. The F-111As proved their ability to penetrate a hostile area in low-level attack missions at night and in bad weather while delivering bomb loads with unprecedented accuracy. Deliveries of the F-111A are continuing to the Tactical Air Command.

The first production version of the FB-111A strategic bomber, scheduled to replace the older B-52s now in service with the Strategic Air Command, was flown during the year and other FB-111As are now in production and test.

The Navy version, the F-111B, successfully demonstrated its ability to operate from an aircraft carrier by making a number of landings and takeoffs on the USS *Coral Sea*. However, Congress elected to deny further funding for the program and it was terminated so that the Navy could develop an airplane with somewhat different characteristics from those established for the F-111B.

We took a number of significant steps during the year to increase the depth and breadth of our commercial business.

We agreed with McDonnell Douglas Corp. to design and produce the major portion of the fuselage for the DC-10 commercial jet transport. Work has begun on this program, which promises to continue for a number of years.

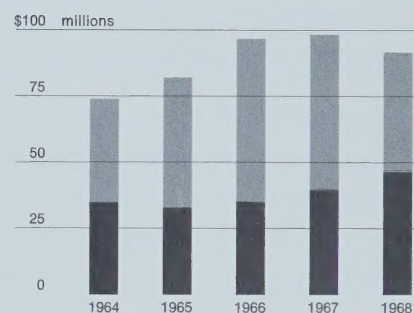
We were pleased to receive a contract in 1968 to build three giant commercial cargo ships for Lykes Bros. Steamship Company, Inc. These revolutionary cargo transports will be the world's largest, capable of carrying 38 preloaded barges, each 97 feet long.

We established Stromberg DatagraphiX as a subsidiary to better develop the market for computer input and output systems. Our primary markets are organizations that need equipment to quickly turn computer output into usable form. Stromberg DatagraphiX expanded its manufacturing and marketing organization in 1968, and we expect this business to grow.

Early in 1969 we increased to approximately 54 percent our ownership, through Canadair Limited, of the outstanding common shares of Asbestos

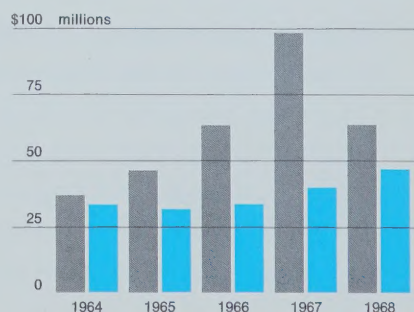
Cash Flow

■ Net Income
■ Depreciation and Amortization



Capital Expenditures, Depreciation, & Amortization

■ Capital Expenditures
■ Depreciation and Amortization



Corporation Limited. The second largest producer of asbestos fiber in Canada, Asbestos Corporation is a profitable and growing business—it earned \$4,873,741 on sales of \$43,631,836 in 1968. We believe it will continue to grow and that General Dynamics can add to the effective development of Asbestos Corporation in the future. Asbestos has hundreds of uses as a component in a wide range of products.

Canadair expanded its capability in the tracked vehicle field when it acquired two firms that are now operating as Flextrac Nodwell Limited. Although its sales volume is small, Flextrac Nodwell has the opportunity to expand its manufacture of off-highway tracked vehicles, now used mainly by Canadian mining, petroleum and pulp and paper industries.

We completed divestiture of Liquid Carbonic, now merged with Houston Natural Gas Corporation, early in 1969, as required by a Federal court order. While we regret the loss of this part of our business, efforts to increase our commercial business have already partially compensated for it.

This divestiture provided for the transfer of \$49.7 million of General Dynamics' consolidated long-term debt to Houston Natural Gas upon the merger.

In addition, we are pleased that we were able to accomplish this divestiture in a manner that was highly advantageous to our share owners. Based on the over-the-counter market for Liquid Carbonic stock shortly after it was distributed to our share owners, the distribution resulted in a tax-free dividend of approximately \$3.50 on each share of General Dynamics common stock.

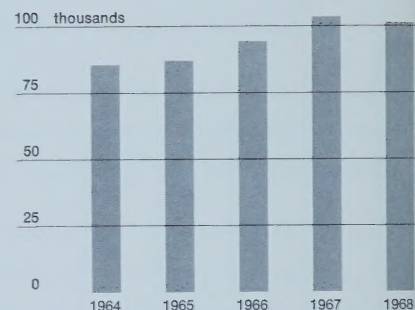
We appreciate the loyalty and dedication displayed by our employees in the past year. They are our greatest asset in meeting the challenges of 1969.



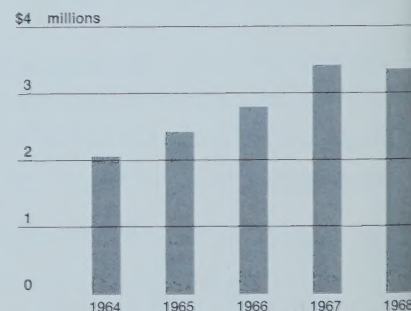
Roger Lewis, President

February 3, 1969

Number of Employees



Common Share Owners' Equity



Aerospace

By the end of 1968, 138 F-111s had been produced and had flown more than 20,000 hours in test, training and combat.

F-111 versions in production at year-end were the United States Air Force's F-111A tactical fighter-bomber for the Tactical Air Command and FB-111A strategic bomber for the Strategic Air Command, and the F-111C strike aircraft for the Royal Australian Air Force. The United States Air Force's RF-111 reconnaissance aircraft was engaged in flight testing during the year.

At the start of 1968, F-111As were being flown by Tactical Air Command pilots at Nellis Air Force Base, Nevada, for combat training. In February, 1968, the first F-111A detachment at Nellis completed all required testing and training. This detachment exceeded its programmed flying time and achieved the highest level of blind-bombing proficiency in Air Force experience.

Operational F-111As were deployed first to Southeast Asia. They arrived in Thailand in March and flew more than 50 combat missions, most of them at night and in bad weather. The Southeast Asia duty ended after F-111As had proven their capability to penetrate a hostile area in low-level attack missions while delivering bomb loads with a high degree of accuracy.

Former Air Force Secretary Harold Brown, in referring to the nighttime radar bombing missions, said that the F-111As "did a job that no other aircraft that we have is able to do." He also stated that "this has been a historic year in the sense that past confidence in the F-111A is now paying off in the tangible accomplishments of our TAC crews. Their enthusiastic reception of the F-111A is indicative of the degree to which program goals have been realized."

Production began during the year on the FB-111A strategic bombers. The first production version of the FB-111A made its first flight in July. The FB-111A's fuselage is the same length as the F-111A, but its wingspan is 7 feet greater to provide added range and to permit a higher gross weight. It also has a strengthened landing gear and is equipped with advanced electronic systems for strategic missions. FB-111As are scheduled to replace older versions of the B-52 now used by the Strategic Air Command.



FB-111A carries fuel tanks to provide extra range for its Strategic Air Command mission.



Scores of F-111As (below) are now in operation with the Tactical Air Command.

Atlas-Centaur launched the Orbiting Astronomical Observatory, which gave astronomers first clear look at many distant stars.

The F-111B successfully completed limited tests aboard the aircraft carrier USS *Coral Sea* in July. A research and development F-111B made a number of landings and catapult launchings from the carrier during a two-day exercise. The airplane also performed hangar and flight deck handling tests, including operation on the aircraft carrier's elevators. *Coral Sea* is smaller than the classes of aircraft carrier from which the F-111B was designed to operate.

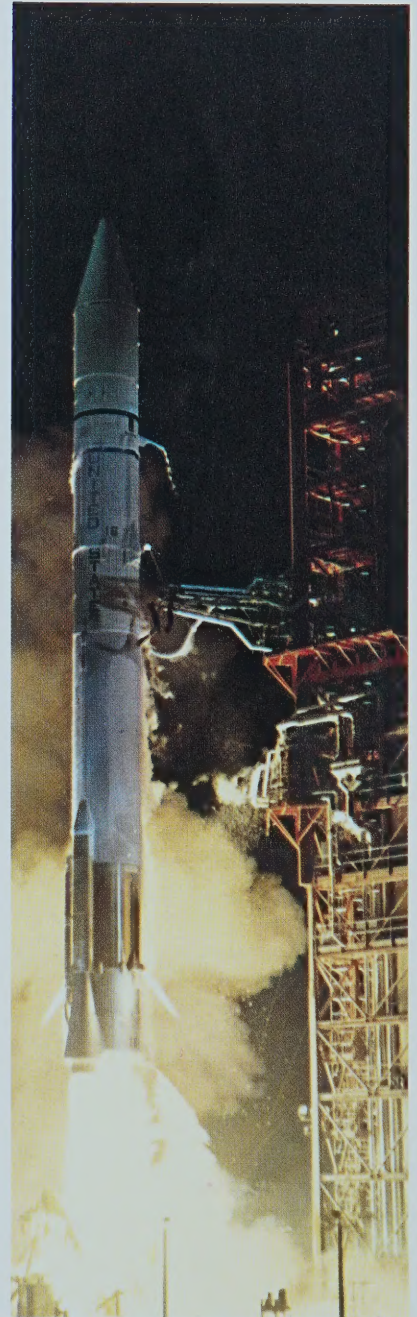
During the year, several technical problems were encountered in ground and flight testing of the F-111. These problems were of a kind normally to be expected in the development of such a complex, high performance aircraft. Wherever necessary, appropriate changes are being made in the aircraft on the production line and will be incorporated into aircraft already delivered.

By the end of 1968, the F-111 had experienced 11 major accidents in more than 20,000 hours of testing, training and combat. To put this record into perspective, United States Air Force statistics indicate that the F-111's major accident record at the end of the year was equal to or better than all but one of the other supersonic high performance tactical aircraft in the Air Force inventory, and none of these had combat experience at the same number of flight hours.

By year-end, 10 Canadair CL-215 twin engine amphibious water-bombers were in flight test. Deliveries will start this year to the Province of Quebec, which has ordered 20 aircraft, and to France, which has ordered 10. Other markets are being pursued for the CL-215 for fire-fighting and for a number of other uses where land and water basing is required.

The first of three CL-84-1 aircraft that Canadair is manufacturing for the Canadian Armed Forces is scheduled for first flight in 1969. The CL-84 is a tilt-wing vertical and short takeoff and landing (V/STOL) aircraft.

Production of 115 CF-5 fighter aircraft for the Canadian Armed Forces and 105 NF-5s for the Royal Netherlands Air Force is on schedule. The aircraft are being built at Canadair under license from Northrop Corporation.





CL-215 will fight forest fires by dropping six tons of water.

Work progressed during the year on large components of Lockheed's giant C-5 military cargo aircraft, and we contracted with McDonnell Douglas to produce the major portion of the fuselage for the DC-10 commercial jetliner.

Our launch vehicles continued their admirable record of reliable space missions, but we have entered a period when fewer Atlas and Centaur vehicles will be built than in the past because of the relatively lower level of America's space exploration program.

The Atlas space launch vehicle record was extended to 43 consecutive successful space launches. The uprated, more powerful Atlas SLV-3A and 3C replaced the SLV-3 completely in 1968. The SLV-3A is used with an Agena upper stage and the SLV-3C with Centaur. There are firm plans for Atlas-Centaur launches in the Mariner Mars program through 1971 and NASA has chosen Centaur for use with Titan boosters for Mariner Mars missions in 1973.

Production continued during the year on tactical missiles for the United States Navy, Air Force, Army and Marine Corps. The shoulder-fired Redeye, designed to protect soldiers from low-flying enemy aircraft, was deployed in Europe by the Army. Deliveries continued to the Marine Corps and Army.

Standard Missile achieved full production status during the year and the missile is now being delivered to the Navy for shipboard use. Standard Missile has been developed to meet both surface-to-air and surface-to-surface fleet requirements.

Development and production continued on the Standard ARM (Anti-Radiation Missile) for the Air Force and Navy. ARM is designed to be used by aircraft to locate and destroy hostile ground-based radar installations.

General Dynamics was awarded a contract during the year for contract definition of the Advanced Surface Missile System (ASMS) which is slated to be the fleet air defense missile system of the mid-1970s and beyond. We are in competition for the engineering development contract, which is expected to be awarded toward the end of 1969.



Standard Missile is now being delivered to the United States Navy.

Redeye provides infantryman with protection from low-flying aircraft.



Marine

During the year we delivered three attack submarines and returned to service several Polaris submarines including *Alexander Hamilton*, which was overhauled in a record 53 weeks. The overhaul and refueling was accomplished two months ahead of schedule and took six weeks less than the previous record for a similar overhaul of a Polaris submarine. Total marine volume declined due to a strike at Groton, Conn., that halted production in the yard for about 20 percent of the work year.

Early in 1969 we launched NR-1, the first nuclear-powered research submarine, for the Navy. Because it is nuclear-powered, NR-1 will not be dependent on surface ship support as other research submarines are. It will have far greater mobility and endurance allowing it to perform efficiently a number of underwater research tasks that have been impossible. The NR-1 is the largest research submarine in existence—140 feet long—and it will displace 400 tons and carry a crew of seven as well as external lights, TV cameras and remote control manipulator arms.

A contract for the construction of four new attack submarines was received during the year and we received approval to proceed with design of a new turbine electric drive or “quiet” submarine.

Contracts for the missile conversion and/or overhaul of four Polaris submarines were awarded. Conversion from Polaris to Poseidon missile capability on the first of these, *James Madison*, was begun early in 1969.

We currently have under construction or contract 13 new attack submarines and 14 more for overhaul or conversion. Overhaul, refueling and conversion work now represent a greater proportion of our submarine business than in the past. We expect this trend to continue in the next few years.

At the same time we are strengthening our position as the leading designer and builder of new types of undersea craft. Besides the “quiet” sub contract, we received study contracts in 1968 for formulation of concepts for a new class of attack submarine and for an advanced underwater missile system.

Our surface ship work continued to expand, both with new contracts and with new facilities.

Shown during sea trials, USS *Butte* is one of a new class of ammunition ships. She is 564 feet long and displaces 18,000 tons.



Supply ship *Wichita* (top) has sustained speed of 20 knots. NR-1 (below) is the world's first nuclear-powered research submarine.



Most important was our first venture into commercial shipbuilding. The Quincy facility will build three 875-foot cargo transports for Lykes Bros. Steamship Company, Inc., under a \$98 million contract. The ships, the world's largest cargo transports, are scheduled for delivery in 1971. Each of the ships will be capable of carrying 38 preloaded barges, each 97 feet long, or containers, palletized shipments and roll-on cargo.

We delivered to the Navy USS *Kilauea*, the first surface ship to be built from the keel up by General Dynamics at the Quincy facility. *Kilauea*, first of a new class of ammunition ships, was joined by her sister ship, *Butte*, which was delivered to the Navy later in the year.

Currently we have under construction or contract 12 large surface vessels for the United States Navy. They comprise six fleet replenishment oilers, two submarine tenders and four landing ship docks. Like the ammunition ships delivered in 1968, the oilers and tenders are new classes of ships for the Navy.

We have continued to install new equipment and initiate the most modern building techniques at our surface ship facility. Among the improvements during 1968 were the construction of a steel-cleaning facility that automatically cleans 75-ton ship sections, a paint facility that provides all-weather painting capability and an assembly area used for construction of sections that weigh up to 150 tons.

Our research submarines were in frequent use last year, including missions in the Santa Barbara, Calif., channel, Baffin Bay off Greenland and the North Sea. The research submarines were leased to various arms of the United States Government as well as to oil companies and other private businesses. We launched two new research vessels, *Sea Cliff* and *Turtle*, for the Navy.

Navigation and ocean data stations gained operational experience. An ocean navigation station has been serving for more than a year as a navigation aid at the entrance to New York harbor. An ocean data station was deployed to the Pacific as part of an Office of Naval Research and Scripps Institution of Oceanography weather experiment.



Ocean data station Alpha demonstrated ability to telemeter meteorological data thousands of miles.



Electronics

Our electronics operations recorded significant sales gains during the year and gained important new contracts from the armed services, national space program and commercial customers.

We received a contract from the Navy to develop and install the world's first ocean laboratory for testing sonar systems. The range will be the latest addition to the Navy's AUTECH (Atlantic Undersea Test and Evaluation Center) facility. It will be established off Andros Island in the Bahamas to calibrate and analyze the performance of sonar systems in the detection and tracking of submarines and surface vessels.

Work continued on advanced sonar systems for Navy submarines and surface ships, and production began on tactical display systems for use in airborne advanced antisubmarine warfare systems.

Three Apollo Instrumentation Ships produced by General Dynamics were key elements in the successful Apollo 8 lunar orbit mission and are scheduled to play an important role in the lunar landing mission.

Continuing our long tradition as a producer of TACAN (Tactical Air Navigation) equipment, we delivered the first production units of microelectronic TACANs for use in the F-106 interceptor. These are the first solid state microcircuited TACANs ever flown.

Data communications is one of our most promising markets. In this area, we are now in production on a contract for 1,000 large terminals for the Defense Communications Agency's worldwide communication system, AUTODIN (Automatic Digital Network).

Production continued on the AN/GRC-106, our tactical radio being used by Army, Navy and Air Force. Thousands of these radios have been produced and are being used in Vietnam in front-line communications roles of many descriptions.

Telecommunications sales at our Stromberg-Carlson subsidiary increased for the fourth straight year, spurred by increased merchandising efforts for the independent telephone industry and the introduction of new equipment, such as dial-in-the-handset SLENDERET® telephones.

Instrumentation ship *Vanguard* helped guide the successful Apollo 8 lunar orbit mission.

The new T-1 carrier system, employing pulse code modulation techniques to reduce noise and crosstalk in transmission, has gained broad acceptance. Automatic toll billing equipment sales were also up sharply. Switching system control equipment continued to be in high demand, and orders grew for XY switching systems.

Major contracts completed included the installation of a telephone system for the Bahamas, the largest ever installed by Stromberg-Carlson.

The company continued to supply telephone offices to the Government for use in Southeast Asia. More than 70 Stromberg-Carlson central dial offices are now in use there as are the initial installations of tandem offices for long distance service.

An important milestone was passed during the year in our work to keep the company in the vanguard of the next major trend in telecommunications—electronic switching. A new electronic telephone exchange successfully completed field trials late in the year. This is the first system in the industry to use plug-in module designs and dual control equipment that employs only integrated circuits. Two more systems are expected to undergo field trials this year and production is planned to begin in 1970.

Our Stromberg DatagraphiX, Inc. subsidiary was established to better penetrate a number of markets for computer input and output systems. The Stromberg DatagraphiX line of products includes systems that take a large part of the printing load off the computer, and do this work at better than 15 times the speed and at a fraction of the cost of conventional printing. The data is presented on microfilm, which makes information retrieval a fast, convenient, low-cost process. Printed copies of any desired data can be provided from the film in seconds.

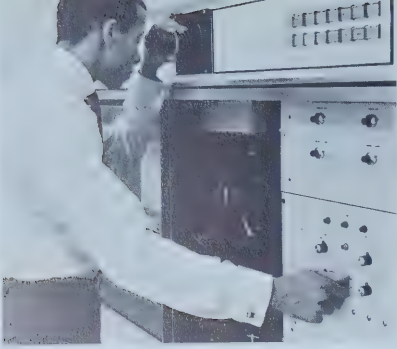
Production was begun on a complete line of new products and expansion of the nation-wide marketing organization was begun. By year-end, five district offices and 11 branch offices had been established in major cities around the country.

Truck-mounted communication systems provide both radio and radioteletype capability.

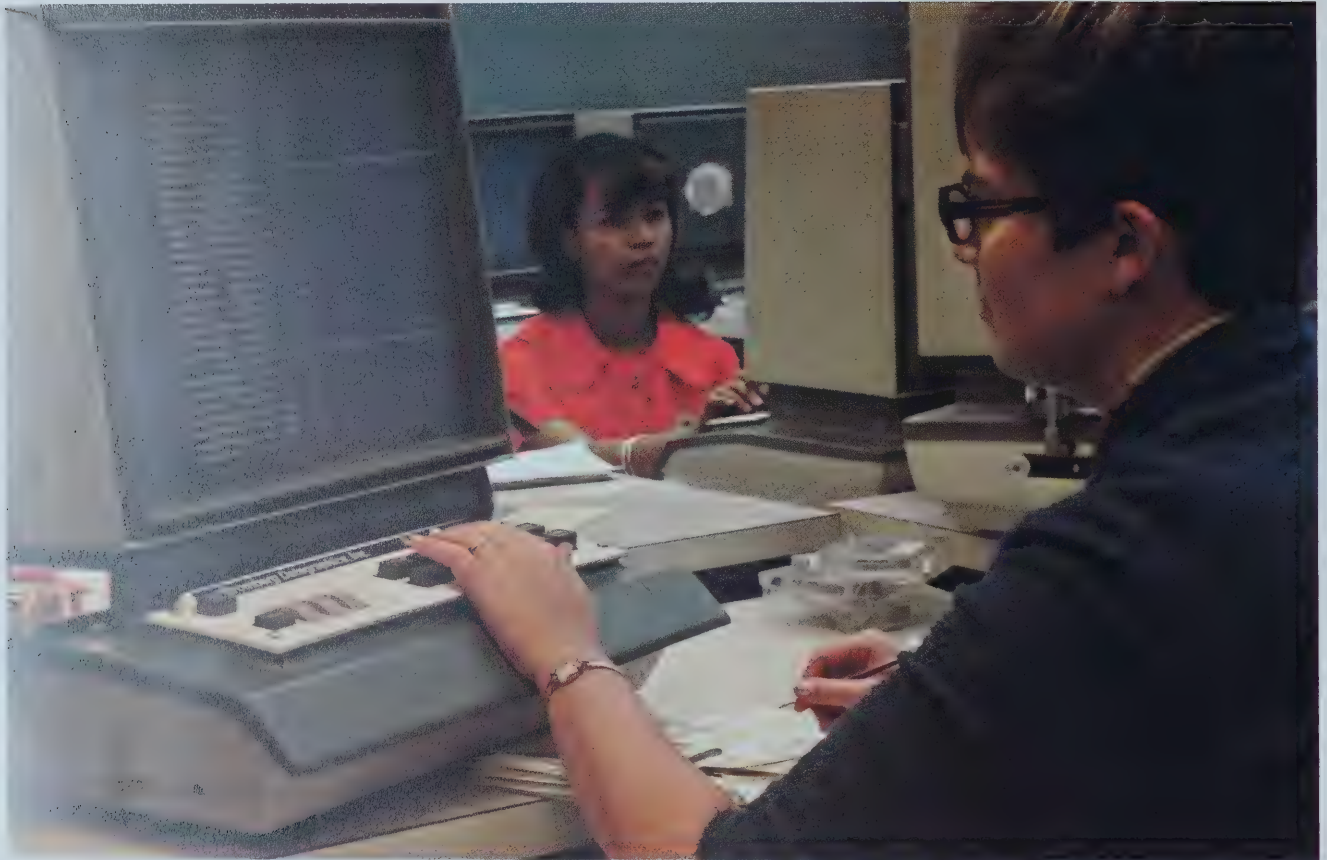


New surveillance radar (left) weighs only 10 pounds. Manpack transceivers (right) provide thousands of channels for ground-to-air tactical communications.





High-speed printer (left) translates computer data into readable form and rapidly prints it onto microfilm.



SLENDERET® telephone (left) offers convenience of push-button dialing.



Microfilm inquiry stations at New York brokerage house provide quick access to computer information.

Resources

To better administer production and marketing efforts, we established a Resources group, which comprises Material Service division, Marblehead Lime Company, Freeman Coal Mining Corporation and the United Electric Coal Companies. Group sales were up for the year.

Building material sales were up and volume of aggregates for highway and other construction jobs reached a record level. Sizable new aggregates reserves were secured in Illinois. In addition to expansion of O'Hare Airport, we participated extensively in the Chicago Transit Authority construction along expressways in the city; much of this work will continue this year.

Important new facilities additions included a fleet of new Redi-Mix trucks and a stone-sand washing plant. Installation was completed on a new electronic truck weighing facility at the Thornton quarry, where as many as 3,000 trucks have been loaded in a single day. The new facility will be tied in with computers to provide customers with faster, more accurate billing.

A quality control technique has been developed that permits the marketing of Redi-Mix concrete on a guaranteed strength basis as required by architectural and engineering designs.

Our lime business showed an increase during the year due largely to the steel industry's widespread conversion to the basic oxygen furnace. The steel industry continues to be our largest lime market but sizable gains were also made in the sale of lime for other uses, particularly water treatment and control, sewage treatment, building construction and road stabilization.

Marblehead Lime's marketing efforts were expanded to include Materialite lightweight concrete aggregate and the Darlington line of glazed and face brick, both of which were transferred from Material Service division.

Freeman Coal's new Orient No. 6 mine began limited production at the end of the year. However, overall coal volume did not meet expectations due to unfavorable natural conditions at one of the principal mines and because of an unusual number of work stoppages caused by labor difficulties.



Concrete is delivered for new high-rise building in Chicago (left).



Tipple (below) where coal is washed, graded and loaded into unit trains.



Flextrac Nodwell vehicle (left) at work in northern Canada.



Construction nears completion at new Orient No. 6 coal mine (below, left).



Lime for steel mills is produced at Buffington, Indiana (below).

Volume of crushed stone production at Material Service division's Thornton quarry reached an all-time high.



Financial History 1959-1968 (Dollars in thousands except per share amounts)

Sales and Income

	Sales	Profit Before Tax and Extraordinary Items	Income Before Extraordinary Items	Extraordinary Items	Net Income	Per Common Share		
						Income Before Extraordinary Items	Extraordinary Items	Net Income
1968	\$2,662,200	\$ 41,900	\$ 29,800	\$ 8,900	\$38,700	\$2.83	\$.85	\$ 3.68
1967	2,253,300	84,500	51,300	5,700	57,000	4.91	.55	5.46
1966	1,797,000	89,700	53,900	4,500	58,400	5.16	.43	5.59
1965	1,472,800	85,700	49,300	—	49,300	4.48	—	4.48
1964	1,579,900	77,500	42,600	—	42,600	3.77	—	3.77
1963	1,415,100	64,200	32,800	—	32,800	3.28	—	3.28
1962	1,898,500	58,500	29,000	—	29,000	2.90	—	2.90
1961	2,062,400	(135,100)	(69,400)	—	(69,400)	(6.95)	—	(6.95)
1960	1,987,700	(61,800)	(27,100)	—	(27,100)	(2.71)	—	(2.71)
1959	1,811,900	54,200	31,100	—	31,100	3.12	—	3.12

Share Owner Data

	Share Owners' Equity		Shares Outstanding			Cash Dividends	
	Amount	Per Share	Preference	Common	Share Owners of Record	Preferred	Common
1968	\$335,800	\$31.94	—	10,513,476	50,136	\$ —	\$10,500
1967	336,100	32.21	—	10,435,706	54,145	—	10,400
1966	286,100	27.71	—	10,324,596	63,104	700	10,300
1965	282,800	23.35	787,268	10,152,968	66,813	8,600	10,100
1964	299,600	19.78	1,663,384	10,015,259	73,216	—	—
1963	256,600	15.99	1,663,634	9,997,992	79,848	—	—
1962	170,500	7.38	1,664,302	9,997,290	85,028	—	—
1961	117,700	2.09	1,664,516	9,997,064	86,815	—	2,500
1960	289,200	16.95	2,064,516	9,982,079	87,750	—	14,900
1959	329,700	21.09	2,064,516	9,944,488	81,844	—	19,900

Financial Position

		Property, Plant and Equipment			
	Working Capital	Net	Depreciation & Amortization	Total Assets	Long-term Debt
1968	\$142,900	\$243,900	\$45,900	\$865,900	\$ 71,900
1967	165,500	284,900	38,000	910,200	125,900
1966	157,500	237,800	32,700	758,700	131,200
1965	183,600	210,200	30,700	670,400	110,000
1964	205,700	192,900	32,200	623,100	92,800
1963	188,500	190,100	34,200	626,100	125,700
1962	128,100	170,800	34,700	655,700	148,500
1961	49,700	192,800	31,700	816,400	150,000
1960	222,000	191,500	30,100	917,500	147,600
1959	265,100	182,900	27,300	861,300	155,100

General Information

	Funded Backlog	Capital Improvement Expenditures	Employees	Wages and Salaries
1968	\$2,089,000	\$60,100	101,400	\$920,600
1967	2,372,000	97,000	103,200	859,800
1966	1,651,000	62,100	93,200	763,400
1965	1,295,000	48,600	84,600	697,000
1964	1,129,000	35,600	84,200	729,100
1963	1,159,000	35,400	85,900	664,200
1962	975,000	20,600	84,500	704,400
1961	1,700,000	33,700	106,000	760,900
1960	2,550,000	39,800	105,700	684,400
1959	2,555,000	39,800	103,600	670,800

Notes:

The Corporation distributed to its share owners, in the form of a tax-free dividend, its interest in Liquid Carbonic Industries, Inc. on January 2, 1969. In the accompanying history, the distribution was treated as accomplished on December 31, 1968. Consolidated net income includes earnings of Liquid Carbonic of \$3,027,000 on sales of \$68,300,000 in 1968 after deducting interest on the Corporation's long-term indebtedness it assumed prior to the distribution (see Note 9 to the financial statements).

Net income is before tax reductions of \$16,917,000 in 1963 and \$23,850,000 in 1962 resulting from the 1961 loss carry forward. These tax reductions have been added to the income tax credit and deducted from the net loss for 1961. In addition, the 1961 net loss has been further reduced by the \$33,000,000 special credit recorded in 1963. This special credit resulted from reduction in losses provided in 1961 on the commercial jet transport program by reason of cost savings and performance achievements subsequently realized.

Dividends on the convertible preference stock issued in 1959 were cumulative from and after January 1, 1964, at the annual rate of \$2.90625 per share. Dividends on convertible preference stock paid in 1965 included \$3,800,000 for 1965 and \$4,800,000 for 1964. Net income per common share is after deducting dividends applicable to preference stock. In April, 1966, the Corporation redeemed all shares of convertible preference stock then outstanding.

Share owners' equity per common share has been computed by deducting the liquidating value of the then outstanding convertible preference stock and accrued unpaid dividends.

Consolidated Balance Sheet

Assets	December 31,	
	1968	1967
Current Assets		
Cash and marketable securities, at cost	\$ 34,600,000	\$ 33,340,000
Accounts receivable—United States and Canadian Governments	40,565,000	36,185,000
Other trade receivables, less reserves	60,252,000	85,144,000
Unreimbursed expenditures and estimated profits on		
long-term contracts in process (Note 1)	272,159,000	236,401,000
Inventories, at the lower of cost or market, less advance and progress payments	172,870,000	186,474,000
Prepaid expenses	6,066,000	8,980,000
Total Current Assets	<u>586,512,000</u>	<u>586,524,000</u>
Other Assets		
Equity in net assets of unconsolidated subsidiaries (Note 2)	5,771,000	14,852,000
Receivables not currently due and other assets	<u>29,708,000</u>	<u>23,915,000</u>
	<u>35,479,000</u>	<u>38,767,000</u>
Property, Plant and Equipment, at cost (Note 3)		
Land and improvements	42,671,000	41,040,000
Buildings and improvements	130,565,000	129,814,000
Machinery and equipment	405,941,000	447,533,000
Construction in progress	<u>16,146,000</u>	<u>36,748,000</u>
	595,323,000	655,135,000
Less—accumulated depreciation, depletion and amortization	<u>351,382,000</u>	<u>370,230,000</u>
	<u>243,941,000</u>	<u>284,905,000</u>
	<u>\$865,932,000</u>	<u>\$910,196,000</u>

Liabilities and Share Owners' Equity	December 31,	
	1968	1967
Current Liabilities		
Notes payable and current installments on long-term debt (Note 4)	\$ 51,606,000	\$ 67,438,000
Bank drafts payable	37,929,000	39,490,000
Accounts payable and accrued expenses	308,791,000	273,523,000
Accrued salaries and wages	43,290,000	36,459,000
United States and Canadian income taxes	<u>1,982,000</u>	<u>4,153,000</u>
Total Current Liabilities	<u>443,598,000</u>	<u>421,063,000</u>
Non-Current Liabilities		
Long-term debt (Notes 4, 9, and 11)	71,934,000	125,886,000
Other liabilities, including deferred income taxes	<u>14,644,000</u>	<u>27,161,000</u>
	<u>86,578,000</u>	<u>153,047,000</u>
Share Owners' Equity		
Preferred Stock, \$1 par value, authorized 1,500,000 shares, none issued (Note 5)	—	—
Common Stock, \$1 par value, authorized 30,000,000 shares, outstanding 10,513,476 shares at end of 1968 after deducting 35,000 shares in Treasury (Note 6)	10,513,000	10,436,000
Capital Surplus (Note 6)	51,446,000	49,155,000
Retained Earnings (Note 4)	<u>273,797,000</u>	<u>276,495,000</u>
	<u>335,756,000</u>	<u>336,086,000</u>
	<u>\$865,932,000</u>	<u>\$910,196,000</u>

Statement of Consolidated Source and Use of Funds

For the Years Ended December 31, 1968 and 1967

	1968	1967
Working Capital at beginning of year	<u>\$165,461,000</u>	<u>\$157,541,000</u>
Source of Funds:		
Net income	38,683,000	57,026,000
Depreciation, depletion and amortization	45,931,000	37,996,000
Sale of property (including General Atomic property in 1967)	473,000	11,803,000
Increase (Decrease) in deferred income taxes and other non-current liabilities	<u>(966,000)</u>	<u>11,883,000</u>
	<u>84,121,000</u>	<u>118,708,000</u>
Use of Funds:		
Expenditures for property	60,134,000	96,951,000
Payment of cash dividends	10,470,000	10,382,000
Reduction of long-term debt	4,296,000	5,363,000
Divestiture of Liquid Carbonic (Note 9):		
Investment in non-current assets, net	\$(57,725,000)	
Transfer of long-term debt	49,656,000	
Dividend of Liquid Carbonic shares	<u>30,911,000</u>	22,842,000
Manufacture of equipment held for lease to others	4,407,000	(353,000)
Other—net	<u>4,519,000</u>	<u>(1,555,000)</u>
	<u>106,668,000</u>	<u>110,788,000</u>
Working Capital at end of year	<u>\$142,914,000</u>	<u>\$165,461,000</u>

Statement of Consolidated Income

For the Years Ended December 31, 1968 and 1967

	1968	1967
Net Sales	\$2,662,238,000	\$2,253,336,000
Cost of Sales	<u>2,613,191,000</u>	<u>2,163,917,000</u>
Profit from operations	<u>49,047,000</u>	<u>89,419,000</u>
Other Income (Expense):		
Interest—net	(10,922,000)	(10,067,000)
Miscellaneous—net	<u>3,762,000</u>	<u>5,137,000</u>
	<u>(7,160,000)</u>	<u>(4,930,000)</u>
Profit Before Income Taxes and Extraordinary Items	41,887,000	84,489,000
Provision for Income Taxes (Note 7)	<u>12,131,000</u>	<u>33,200,000</u>
Income before Extraordinary Items	29,756,000	51,289,000
Extraordinary Items, net of taxes (Note 10)	<u>8,927,000</u>	<u>5,737,000</u>
Net Income	<u>\$ 38,683,000</u>	<u>\$ 57,026,000</u>
Per Share of Common Stock		
Income before Extraordinary Items	\$ 2.83	\$ 4.91
Extraordinary Items less applicable taxes	<u>.85</u>	<u>.55</u>
Net Income	<u>\$ 3.68</u>	<u>\$ 5.46</u>

Statement of Consolidated Retained Earnings

For the Years Ended December 31, 1968 and 1967

	1968	1967
Retained Earnings at beginning of year	\$ 276,495,000	\$ 229,852,000
Net Income	<u>38,683,000</u>	<u>57,026,000</u>
	315,178,000	286,878,000
Deduct:		
Dividends—Cash paid to common share owners (\$1 per share)	(10,470,000)	(10,383,000)
—Net assets of Liquid Carbonic Industries, Inc. at date of divestiture (Note 9)	<u>(30,911,000)</u>	<u>—</u>
Retained Earnings at end of year (Note 4)	<u>\$ 273,797,000</u>	<u>\$ 276,495,000</u>

Notes to Financial Statements

1. Accounting for Long-Term Contracts Profits are recorded on substantially all long-term contracts prior to completion thereof where, in the opinion of management, such profits can be reasonably estimated after taking into consideration the stage of completion and the estimated final costs and prices. Estimated losses on long-term contracts are recorded in full as soon as they can be identified.

2. Unconsolidated Finance Subsidiary Stromberg-Carlson Credit Corp., an unconsolidated subsidiary, purchases from the Corporation or a consolidated subsidiary (a) notes issued by independent telephone companies in connection with the sale of telephone equipment, and (b) notes and other receivables resulting from aircraft sales and equipment leases. Following is a summary of the balance sheet of the Credit Corp. as of December 31, 1968:

Notes receivable from independent telephone companies	\$101,339,000
Receivables on aircraft sales and other notes	33,745,000
Cash and other assets	2,445,000
	<u>\$137,529,000</u>
Notes payable	\$ 78,710,000
Bank loans and other short-term borrowings	49,465,000
Other liabilities	3,876,000
Share owners' equity	5,478,000
	<u>\$137,529,000</u>

The Corporation or a consolidated subsidiary has guaranteed payment of the notes payable, bank loans, and other short-term borrowings, and in the event of default has agreed to repurchase notes and receivables on aircraft sales.

3. Properties Substantially all property, plant and equipment acquired by the Corporation after 1953 is being depreciated on an accelerated basis for both financial and tax reporting purposes.

The Corporation leases from the United States Government substantial portions of plant facilities used in the operation of certain divisions.

4. Long-Term Debt Long-term debt includes notes of \$72,000,000 payable to an insurance company with interest from 5% to 5.2%. The terms of the agreements relating to such notes provide, among other things, for (a) payments of \$5,529,000 in 1969, which amount is included in current liabilities as of December 31, 1968, \$5,529,000 annually in 1970 through 1977, \$16,239,000 in 1978, \$4,000,000 in 1979 and the balance of \$2,000,000 in 1980; (b) consolidated working capital, as defined in the agreements, of not less than \$125,000,000; and (c) restrictions on the amount available for cash dividends on the common stock of the Corporation to 70% of consolidated net income as defined in the agreements subsequent to December 31, 1963, less the sum of cash dividends paid or declared subsequent to that date. As of December 31, 1968, consolidated working capital totaled \$142,914,000 and retained earnings restricted under (c) aggregated \$156,599,000.

There are other long-term notes and mortgages aggregating \$5,463,000 after deducting current installments, due in varying amounts to 1982 with interest from 3% to 6¼ %.

In February, 1969, the Corporation entered a credit agreement under which it may borrow up to \$60,000,000 at any time and from time to time, until December 31, 1970, at which time the

outstanding balance shall be payable in twenty equal quarterly installments commencing March 31, 1971. Until December 31, 1970, interest on the outstanding balance will be at the prevailing prime interest rate, and a commitment fee of ¼ % will be payable on the unused balance; thereafter, interest will be ¼ % above the prime rate. The terms of the agreement require, among other things, maintenance of not less than \$300,000,000 net worth and \$125,000,000 working capital. In addition, cash dividends are limited to \$22,000,000 plus 70% of net income subsequent to December 31, 1968.

5. Preferred Stock Preferred Stock, par value \$1 per share, is issuable in series, with the rights, preferences and limitations of each series to be determined by the Board of Directors.

6. Common Stock The Qualified Stock Option Plan, approved by the share owners in 1964 and amended in 1968, authorizes the issuance of an aggregate of 900,000 shares of common stock upon exercise of options to be granted under the Plan. The purchase price of shares under option shall not be less than 100% of the fair market value of the common stock at the date the option is granted, and the options may not have a term of more than five years from date of grant. The terms and conditions under which options become exercisable are prescribed by the Stock Option Committee, appointed by the Board of Directors. Options outstanding at December 31, 1968 become exercisable in cumulative installments of 25% on each of the first four anniversaries of the date of grant.

Under the Corporation's Restricted Stock Option Plan, approved by the share owners in 1951, the price to be paid for the shares covered by each option is 95% of the fair market value thereof on the date the option was granted. Options under this Plan were granted for a seven-year period and are exercisable in installments from two to five years from date of grant. No additional options may be granted under this Plan, and the final option expires in December, 1970.

Information with respect to options for the year 1968 under each of the Plans is summarized below:

	Qualified Plan	Restricted Plan
Number of shares under stock options:		
Outstanding January 1, 1968	307,145	37,680
Add (deduct):		
Granted	117,500	—
Exercised	(53,260)	(24,510)
Cancelled	(23,725)	—
Outstanding December 31, 1968	<u>347,660</u>	<u>13,170</u>
Aggregate price of shares under stock options:		
Granted during 1968	<u>\$ 6,493,185</u>	<u>\$ —</u>
Outstanding December 31, 1968	<u>\$17,798,904</u>	<u>\$312,786</u>

Of the common stock authorized but unissued, 798,655 shares are reserved for options outstanding or issuable under the Corporation's stock option plans at December 31, 1968.

The excess (\$2,291,000 in 1968 and \$3,230,000 in 1967) of proceeds over par value of common stock issued under options has been credited to capital surplus.

7. Income Taxes Investment tax credits are reflected in the Statement of Consolidated Income as a reduction of the provision for income taxes in the year the related property is placed in service and amounted to \$4,802,000 in 1968 and \$3,550,000 in 1967.

United States income tax returns of the Corporation are subject to review by the Internal Revenue Service for all years subsequent to 1964.

8. Employees' Retirement Plans The Corporation and subsidiaries have a number of retirement plans covering substantially all employees. Unfunded actuarial liability under the plans was approximately \$35,756,000 at December 31, 1968. The cost of all plans was \$27,239,000 for 1968 and \$28,008,000 for 1967 including amortization of unfunded actuarial liability and interest thereon over a period of twenty years subsequent to 1965. Accrued retirement costs are paid into trust funds which may be used only for benefits provided by the Plans.

9. Liquid Carbonic Distribution The Corporation distributed to its share owners, in the form of a tax free dividend, its interest in Liquid Carbonic Industries, Inc. and subsidiaries on January 2, 1969. The distribution, treated in the accompanying financial statements as accomplished on December 31, 1968, complied with a 1966 Federal District Court order under which the Corporation was required to divest itself of Liquid Carbonic.

The following is a summary of the net assets of Liquid Carbonic divested as of December 31, 1968:

Property, plant and equipment—net	\$54,694,000
Equity in net assets of foreign affiliates	14,582,000
Deferred income taxes	(11,551,000)
Long-term debt	(49,656,000)
Working capital and other assets	<u>22,842,000</u>
Net assets divested as a dividend	<u>\$30,911,000</u>

The Statement of Consolidated Income includes earnings of Liquid Carbonic of approximately \$3,027,000 on sales of \$68,300,000 in 1968 and \$3,753,000 on sales of \$66,500,000 in 1967, after deducting interest on the Corporation's long-term indebtedness it assumed prior to the distribution.

10. Extraordinary Items During the year the Corporation recognized a gain of \$8,927,000, after applicable taxes of \$5,156,000, from the sale of General Atomic Division as certain contingencies, which existed at the sale date in 1967, were satisfied in 1968.

In 1967 the Corporation realized a gain on disposition of securities of \$5,737,000 net of applicable taxes of \$1,605,000.

11. Contingent Liabilities A substantial portion of sales for 1964 through 1968 is subject to review by the United States Renegotiation Board. Management believes that the Corporation will not be required to make refunds under the Renegotiation Act of 1951, and consequently no provision has been made therefor.

The Corporation remains contingently liable on approximately \$49,700,000 of long-term debt which was assumed by Houston Natural Gas Corporation in connection with the divestiture of Liquid Carbonic Industries, Inc. and its subsequent merger with Houston.

In addition, there were other contingent liabilities with respect to guarantees, law suits and other matters arising in the ordinary course of business. In the opinion of management, reasonable reserves have been provided for contingent liabilities.

Auditors' Report To the Share Owners and the Board of Directors of General Dynamics Corporation:

We have examined the consolidated balance sheet of General Dynamics Corporation (a Delaware corporation) and subsidiaries as of December 31, 1968, and the related statements of consolidated income, retained earnings and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were unable to obtain confirmation of receivables from the United States Government; however, we have applied other auditing procedures as to such receivables. The financial statements of Canadair Limited, a consolidated subsidiary, were examined by other auditors and we were furnished with their report on such financial statements. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, based upon our examination and the report of other auditors referred to above, the accompanying financial statements present fairly the financial position of General Dynamics Corporation and subsidiaries as of December 31, 1968, and the results of their operations and the source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N.Y.,
February 3, 1969.

Arthur Andersen & Co.

Transfer Agents Bankers Trust Company, New York, New York
Bank of America National Trust and Savings Association, San Francisco, California
The First National Bank of Jersey City, Jersey City, New Jersey
The First National Bank of Chicago, Chicago, Illinois
Montreal Trust Company, Montreal, Quebec, and Toronto, Ontario, Canada

Registrars The Chase Manhattan Bank, New York, New York
Wells Fargo Bank, San Francisco, California
American National Bank and Trust Company of Chicago, Chicago, Illinois
The Royal Trust Company, Montreal, Quebec, and Toronto, Ontario, Canada

Stock Exchange Listings New York Stock Exchange
Midwest Stock Exchange
Pacific Coast Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange

Auditors Arthur Andersen & Co., New York, New York

Officers **President**
Roger Lewis

Vice Presidents

Jack L. Bowers
Frank W. Davis
John C. Franklin
Max Golden
John J. Graham
Roger I. Harris
John T. Hayward
Edward H. Heinemann
Algie A. Hendrix
Charles F. Horne
Robert V. Laney
Edward J. LeFevre
J. T. MacDonald
Frank Nugent
John A. Sargent
Patrick J. Sullivan

Secretary

John P. Maguire

Treasurer

Harold K. Pedersen

Comptroller

David L. Thomas

Board of Directors Roger Lewis, Chairman
William C. Bolenius
H. S. M. Burns
Sylvan C. Coleman
John F. Floberg
Donald N. McDonnell
Maurice T. Moore
John A. Sargent
Eric A. Walker
Leo D. Welch

Advisory Directors B. Emmet Finucane
I. M. Laddon

Auditors' Report To the Share Owners and the Board of Directors of General Dynamics Corporation:

We have examined the consolidated balance sheet of General Dynamics Corporation (a Delaware corporation) and subsidiaries as of December 31, 1968, and the related statements of consolidated income, retained earnings and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were unable to obtain confirmation of receivables from the United States Government; however, we have applied other auditing procedures as to such receivables. The financial statements of Canadair Limited, a consolidated subsidiary, were examined by other auditors and we were furnished with their report on such financial statements. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, based upon our examination and the report of other auditors referred to above, the accompanying financial statements present fairly the financial position of General Dynamics Corporation and subsidiaries as of December 31, 1968, and the results of their operations and the source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N.Y.,
February 3, 1969.

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Auditors Arthur Andersen & Co., New York, New York

